

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 EURE-00 SP-02 AID-05 EB-07 NSC-05

CIEP-01 TRSE-00 SS-15 STR-04 OMB-01 CEA-01 L-03 H-02

PA-01 PRS-01 USIA-06 CIAE-00 COME-00 FRB-03 INR-07

NSAE-00 XMB-02 OPIC-03 LAB-04 SIL-01 /087 W

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P R 251155Z JUL 75

FM AMEMBASSY BONN

TO SECSTATE WASHDC PRIORITY 1693

INFO USMISSION EC BRUSSELS

USMISSION OECD PARIS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY PARIS

AMEMBASSY LONDON

AMEMBASSY LUXEMBOURG

AMEMBASSY BRUSSELS

AMEMBASSY ROME

AMEMBASSY THE HAGUE

C O N F I D E N T I A L SECTION 01 OF 02 BONN 12012

E.O. 11652: GDS

TAGS: ECON, EGEN, EFIN, GW

SUBJECT: FINANCE MINISTRY STATE SECRETARY ON
ECONOMIC AND MONETARY SITUATION

1. BEGIN SUMMARY: DURING CONVERSATION WITH
AMBASSADOR ON JULY 24, FINANCE MINISTRY STATE SECRETARY
POEHL EXPLAINED GERMAN CONCERNS OVER AMERICAN AND
GLOBAL ECONOMIC DEVELOPMENTS, EXPRESSED SATISFACTION
WITH THE STRENGTHENING DOLLAR AND CONCERN OVER RISING
US INTEREST RATES. HE REJECTED FRENCH INSISTENCE ON
FIXED EXCHANGE RATES AND EXPLAINED GERMAN PREFERENCE
FOR INCOME SUPPORT FOR POORER COUNTRIES OVER
COMMODITY AGREEMENTS. HE WAS DOUBTFUL OVER RECENT
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EC COUNCIL DECISION ON COMMON RAW MATERIALS POLICY.

END SUMMARY.

2. DURING CONVERSATION WITH FINANCE MINISTRY STATE SECRETARY POEHL ON JULY 24, THE AMBASSADOR ASKED POEHL WHY THE CHANCELLOR CONTINUED TO EMPHASIZE HIS CONCERNS OVER TRENDS IN THE AMERICAN ECONOMY. POEHL RESPONDED THAT THE CHANCELLOR WAS NOT JUST CONCERNED ABOUT THE US ECONOMY, BUT ABOUT THE STATE AND FATE OF THE GLOBAL ECONOMY. THE US ECONOMY IN ITSELF WAS NOT VITAL TO THE FRG SINCE THE US WAS NOT AS IMPORTANT A TRADING PARTNER AS IT HAD BEEN IN THE PAST. EVEN SO, THE AMERICAN ECONOMY WAS IMPORTANT BOTH BECAUSE OF ITS MAGNITUDE AND BECAUSE OF THE PSYCHOLOGICAL IMPACT OF DEVELOPMENTS ON BOTH SIDES OF THE ATLANTIC. POEHL ACKNOWLEDGED THAT THERE WERE SOME RECENT ENCOURAGING SIGNS IN THE AMERICAN ECONOMY WHICH HE HOPED WOULD CONTINUE. HE REMAINS, HOWEVER, SOMEWHAT SKEPTICAL. THIS SKEPTICISM, NO DOUBT, CARRIES OVER INTO THE CHANCELLOR'S THINKING.

3. POEHL SAID THE RECENT STRENGTHENING OF THE DOLLAR WAS A FAVORABLE OMEN BOTH FOR THE US AND THE FRG. HE ATTRIBUTED THE STRENGTH OF THE DOLLAR LARGELY TO INTEREST RATE DEVELOPMENTS, BUT ADMITTED THAT THERE WERE OTHER FACTORS THAT PLAYED A ROLE. HE SAID THAT FROM THE GERMAN VIEWPOINT, AS LONG AS THE RATE REMAINED IN THE 2.50/2.60 RANGE OR EVEN A LITTLE STRONGER, A GOOD BALANCE WOULD EXIST BETWEEN THE DESIRE TO KEEP OIL PRICES LOW AND DEFEND GERMAN EXPORT INTERESTS ON THE AMERICAN MARKET.

4. POEHL COULD NOT UNDERSTAND, HOWEVER, WHY THE US WANTED TO SEE US INTEREST RATES RAISED. HE DESCRIBED THIS AS A VAGARY OF CENTRAL BANK POLICY WHICH IS BEYOND THE ORDINARY MAN'S UNDERSTANDING. POEHL SAID THIS MADE IT DIFFICULT TO MAINTAIN A DOWNWARD PRESSURE ON INTEREST RATES IN THE FEDERAL REPUBLIC. HE WOULD BE MOST DISTURBED BOTH FOR ECONOMIC POLICY REASONS AND ALSO FOR BUDGETARY REASONS (OWING TO INTEREST ON FINANCING OF GERMAN

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DEFICITS), IF GERMAN LOW INTEREST POLICY WERE FRUSTRATED BY UPWARD PRESSURES IN THE US.

5. POEHL DISAGREED COMPLETELY WITH THE FRENCH DESIRE FOR STABLE EXCHANGE RATES IN THE SHORT RUN. HE SAID THE FRG WAS CONVINCED THAT REAL STABILITY LAY IN FLEXIBLE RATES, AND HE THOUGHT THAT CHANCELLOR SCHMIDT WOULD HAVE TO MAKE THIS CLEAR

TO GISCARD. ALSO, ON MONETARY MATTERS, POEHL TOOK STRONG EXCEPTION TO GISCARD'S INITIATIVES FOR A MONETARY CONFERENCE WHICH WOULD TAKE THE MONETARY PROBLEM OUT OF THE IMF FRAMEWORK. POEHL WAS CONVINCED THAT NOTHING GOOD COULD COME OF SUCH PROCEDURE.

6. ON THE DIALOGUE, PETROLEUM AND RAW MATERIALS ISSUES, POEHL SAID HE SAW BROAD AGREEMENT BETWEEN THE US AND FRG ON COMMODITY QUESTIONS. THIS AGREEMENT

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ACTION EUR-12

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FM AMEMBASSY BONN

TO SECSTATE WASHDC PRIORITY 1694

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AMEMBASSY BRUSSELS

AMEMBASSY ROME

AMEMBASSY THE HAGUE

C O N F I D E N T I A L SECTION 02 OF 02 BONN 12012

WAS PROBABLY CLEARER IN THE ECONOMICS MINISTRY THAN IN THE MIND OF THE CHANCELLOR. THE AMBASSADOR EXPRESSED HIS PUZZLEMENT OVER FREQUENT REPORTS OF SOME DIVERGENCE OF INTEREST BETWEEN THE US AND THE FRG ON RAW MATERIALS POLICY. POEHL SAID THAT THESE REPORTS AROSE FROM THE REALIZATION OF THE FRG THAT HALF OF THE RAW MATERIALS DO NOT COME FROM LDCS BUT FROM ADVANCED COUNTRIES SUCH AS THE US, CANADA, AUSTRALIA, ETC. FOR THIS REASON THE GERMANS ARE OPPOSED TO PRICE SUPPORT AND FAVOR THE SUPPORT OF INCOMES.

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7. AS A RESULT, THE GERMANS FAVOR AN INCOME SUPPORT PROGRAM FOR THE POOREST OF RAW MATERIAL PRODUCERS WHO HAD A SHORTFALL IN EXPORT EARNINGS. THE GERMAN PROPOSAL FOR IMF FACILITY WAS MOTIVATED BY THESE CONSIDERATIONS. POEHL WAS MOST EMPHATIC IN HIS STRICTURES AGAINST INDEXATION WHICH HE SAID WAS ABSOLUTELY CONTRARY TO ECONOMICS AND FINANCE MINISTRY THINKING. HE ADDED, HOWEVER, THAT THE CHANCELLOR WAS MORE FLEXIBLE.

8. WHEN THE AMBASSADOR COMMENTED THAT SOME OF THESE ISSUES SEEMED TO HAVE BEEN WORKED OUT AT THE RECENT EUROPEAN COUNCIL MEETING, POEHL RESPONDED SOMEWHAT CYNICALLY THAT THEY ONLY "SEEMED" TO HAVE BEEN SETTLED. THE PARTICIPANTS IN THE COUNCIL MEETING AGREED TO SOMETHING, BUT NOBODY SEEMS VERY CLEAR AS TO WHAT WAS AGREED UPON. HE THOUGHT THAT IT WOULD TAKE A LONG TIME TO AGREE ON THE AGREEMENT. THIS CONFIRMS IMPRESSIONS WE RECEIVED EARLIER FROM MUELLER-THUNS IN THE ECONOMICS MINISTRY WHO SAID THE EC WOULD NOT HAVE DOTTED ALL OF THE I'S OR CROSSED ALL OF THE T'S BY THE TIME THE 7TH SPECIAL UN SESSION BEGAN.
HILLENBRAND

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